Chapter 2: Performance Appraisal: Conceptual Issues

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2.1. Evolution of Performance Appraisal

Despite the current increasing interest in performance appraisal of academics and researchers, it is not a new phenomenon. Historical evidence indicates that performance appraisal has been in vogue in different formats since time immemorial. For instance, merit exams were given for selection and promotion decisions during the rule of the Hun Dynasty as early as in 206BC- 220 AD (Wren, 1994). Performance appraisal as a concept dates back to the third century A.D., when emperors of the Wei Dynasty employed an ‘Imperial Rater’ to evaluate the performance of the official family members. The Chinese philosopher Sin Yu’s criticism of this system foreshadows criticism still perceived about performance appraisal: “The Imperial Rater of Nine Grade seldom rates men according to their merits, but always according to his likes and dislikes” (Patten, 1977). Till now in subjective appraisal system the inherent tendency of supervisory bias has long been recognized as a problem.

Most likely, the early 1800s marked the beginning of performance appraisals in industry with Robert Owen’s use of “silent monitors” in the cotton mills of Scotland (Wren, 1994). Silent monitors were blocks of wood with different colors painted on each visible side and placed above each employee’s work station, white for ‘excellent’, yellow for ‘good’, blue for ‘indifferent’, and black for ‘bad’ (George, 1972). At the end of the day, the block was turned so that a particular color, representing a grade (rating) of the employee’s performance, was facing the aisle for everyone to see which had an influence on subsequent behavior of the employee.

The start of a more organized formal performance appraisal may be noted in the United States in 1813 when an Army General submitted an evaluation of each of his men to the U.S. War Department. The Army General used a global rating, with descriptions of his men such as “a good-natured man” or “a knave despised by all” (Bellows and Estep, 1954). The Federal Civil Service of the United States began giving merit ratings, also known as efficiency ratings, in the late 1800s (Graves, 1948; Lopez, 1968; Petrie, 1950).

Widespread appraisal in the United States government was first introduced in 1842 (Lopez, 1968). In the late nineteenth and early twentieth century, performance appraisals were used
primarily by military and government organizations to promote the top performers to higher organizational levels due to their large size, hierarchical structure, and geographic dispersal. At this time, most private organizations used informal measures to evaluate individual performance and make subsequent administrative decisions. The army used ‘Man-to-man’ rating system during the World War I to assess the performance of the officer. After the war, business leaders, impressed by the achievements of the army researchers, hired many of the men who had been associated with the work in man-to-man appraisals. The military, in particular, has been a forerunner in developing Performance appraisal techniques, including man-to-man ranking, forced-choice measures, and trait-rating scales.

Traditional performance appraisal principles used in industry date back to the early 1900s, and were designed to support a top-down, control-oriented style of management. The principles of formal appraisal procedures enabled an organization to retain control over their employees, to develop the employee as an individual as well as a team member, to involve the employee in setting goals, to reward the employee intrinsically and extrinsically, and to improve performance through frequent communication/feedback.

During the 1920-1930 periods, rational wage structures for hourly paid workers were adopted in industrial units. As a result the policy of giving grade wage increments on the basis of merit was accepted. These plans were called merit planning programs, which continued to be so called up to the mid fifties.

The primary tool of performance appraisal was the trait-rating system, which focuses on past actions, using a standard, numerical scoring system to appraise people on the basis of a previously established set of dimensions (DeVries et al., 1981). Many in the government were becoming dissatisfied with this method because it used static measures of performance, was not closely related to employee development and was too closely tied with reductions in force and removals (Van Riper, 1958). Additionally, this rating system causes the manager to play the role of judge, which is inconsistent with the roles of leader and coach necessary to focus on and achieve both the employee’s and the organization’s goals (McGregor, 1957). The performance appraisal problems associated with these conflicting roles was accompanied by the initiation of widespread manager appraisals,
which began after World War II, gave impetus to the need to update Performance Appraisal Systems (DeVries et al., 1981).

The limitations of Performance Appraisal Systems in the 1950s led to the development of new systems which was based on management by objectives. It was suggested that the purpose of a Performance Appraisal System should be employee development and feedback (Fedor, 1991). It was shown that individuals are motivated to seek feedback (if it is seen as a valuable resource) to reduce uncertainty and to provide information relevant to self evaluations (Ashford, 1986).

In the 1960s the self-appraisal was developed as a concept and specific time and opportunity was provided to the appraisee to reflectively evaluate their performance. Performance Appraisal discussion was also conducted, in selected organizations, through an interview developed into a conversation on a range of topics that the appraisee needed to discuss. Until this period the success of the appraisal was dependent on skill of appraiser. But in most of the cases performance appraisal would become a raters perception based appraisal system as the raters used it as a weapon in their hand to take revenge against the employees.

The enactment of the 1964 Civil Rights Act led to a legal use for PA which prohibits administrative action on the basis of color, creed, sex, etc. This legal parameter was the final blow to subjective, trait-based approaches. Now, to fire or to demote an employee, a company must demonstrate that the employee is incompetent through the use of a valid and reliable measurement instrument. The performance appraisal inputs are used for the career development and evaluation of performance of the employees.

Assessment centers developed by the German military during World War II recognized the value of gaining performance insights from multiple perspectives. Because the reliance on a single source (for example, the supervisor) for retrospective evaluations, which often cover a year of performance information are subject to the biases and subjectivity of a single individual, which may fail to provide fair and valid feedback. The fundamental premise behind gaining the performance insights from multiple perspectives was that information gathered from multiple perspectives was thought to be more comprehensive
and objective than the information obtained from only one source as the situations have changed; information regarding an employee’s performance is now sought for multi-purpose.

Historically, performance appraisals have been used for various administrative purposes like retention, discharge, promotion, and salary administration decisions. However, in this early era, with weak human resource management departments and a lack of understanding of Performance Appraisal Systems, administrative decisions were often made independently of, which mostly ran counter to the performance appraisal. In addition to, and perhaps because of, supervisors who did not take performance appraisals seriously, the unions of this era advocated seniority-based decisions over performance-based decisions. Thus, a loose correlation between appraisal results and administrative decisions was permitted, which gave individual supervisors discretionary power in relation to human resource outcomes e.g. promotions, salary increases etc.

In the 1990s the development of 360-degree appraisal concept evolved, whereby information was sought from a wider range of sources and the feedback was no longer dependent on the manager-subordinate power relationship but included groups appraising the performance of line managers and peer feedback from peer groups on individual performance (Redman and Snape, 1992).

Today, performance appraisals are expected to serve a number of purposes simultaneously. With increasing psychometric sophistication like better rating techniques and better job descriptions and the introduction of the management-by-objectives concept, Performance Appraisal came to be used also for counseling, career development, and manpower planning. The term "management by objectives" was first popularized by Peter Drucker in 1954. George Odiorne (1965) defined Management by Objectives is “a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual’s major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members”. Unfortunately, the tools presently available are incapable of serving the myriad different purposes of organization stakeholders. Thus, while organizations believe they need a Performance Appraisal System, they are
unsatisfied with the results. This dissatisfaction has historically motivated researchers to try to improve performance appraisals and continue to do so.

2.2. Theoretical Development of Performance Appraisal

The Oxford English dictionary defines performance as the “accomplishment, execution, carrying out, and working out of anything ordered or undertaken”. The Oxford English Dictionary defines appraise as “estimate the value or quality of”. The early theoretical understanding on performance management was primarily based on the ‘traits’ of employees and managers. Dominant trait theories identify the physical and psychological characteristics of a person which may be important in determining the success and otherwise of his performance. The 1930s Traits Approaches identified personality and performance management potential in the field of selection. Dalton and Mcfarland (1968) conclude that there are three general classes of pitfalls and obstacles involved in the trait-rating approach. They are: (i) psychological blocks, (ii) criterion problems, and (iii) distortion of facts. Deficiencies of these traditional, traits-based performance appraisal methods have long been recognized and debated. The current literature has been almost exclusively concerned with the impact of employee attitudes and behavior on performance.

In the 1940s Behavioural Methods were developed. These included Behavioural Anchored Rating Scales (BARS); Behavioural Observation Scales (BOS); Behavioural Evaluation Scales (BES); critical incident; job simulation. All these judgments were used to determine the specific levels of performance criteria to specific issues such as customer service and rated in factors such as excellent, average or needs to improve or poor. These ratings are assigned numerical values and added to a statement or narrative comment by the assessor. It would also lead to identify any potential need for training and more importantly to identify talent for careers in line management supervision and future managerial potential.

Post 1945 studies developed into the results-oriented approaches and led to the development of management by objectives (MBO) which provided specific targets to be achieved and within time frames and deadlines with feedback on previous performance. The deadlines may have required alteration and led to specific performance rankings of
staff. It also provided a forced distribution of rankings of comparative performance and paired comparison ranking of performance and setting and achieving objectives.

In the 1960s the development of self-appraisal by discussion led to specific time and opportunity for the appraisee to reflectively evaluate their performance in the discussion and the interview developed into a conversation on a range of topics that the appraisee needed to discuss in the interview. Until this period the success of the appraisal was dependent on skill of interviewer.

The final development of appraisal interviews developed in the 1990s with the emphasis on the linking performance with financial reward and used feedback using graphic rating scales, a mixed standard of performance scales noting behaviour in likert scale ratings. The twentieth century led to the scientific management movement of F.W. Taylor.

2.3. Performance Appraisal and Performance Management

The traditional performance measurement which was based on the perspective of cost and management accounting causing purely financial dimensions of performance measures was perceived to be inappropriate and multi-dimensional performance management was developed in the 1970s (Radnor and McGuire, 2004). Since then, the language of performance has become an almost every-day feature of work in many public sector organizations, in some form or another and the language of performance has been associated with the establishment of standards or indicators to be achieved, and the audit of organizational systems to ensure conformance (Boland and Fowler, 2000).

Performance management has been defined in by different school of thought, which has been summarized as follows:

Armstrong and Murlis (1994) defined performance management as a: “...a process or set of processes for establishing shared understanding about what is to be achieved, and of managing and developing people in a way which increases the probability that it will be achieved in the short and longer term.”
Nel et al., (2008) defines performance management as: “...a holistic approach and process towards the effective management of individuals and groups to ensure that their shared goals, as well as the organizational strategic objectives are achieved.”

Akata (2003) considers it as “a systematic and holistic (all-embracing) process of work planning, monitoring and measurement aimed at continuously improving the teams and individual employee’s contribution to achievement of organizational goals”.

Armstrong (2004) described performance management “as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capability of teams and individual contributors.”

Oladimeji (1999) defines performance management as “a means of getting better results from the organization, teams and individuals by understanding and managing performance within agreed framework of planned goals, objectives and standards”.

According to Bratton and Gold, (2007) “…Performance management is a process of performance planning (goal setting), performance monitoring and coaching, measuring (evaluating) individual performance linked to organizational goals, giving…feedback, rewarding…based on …achievements against set performance and required competences, and working out a plan for…development”. In this regard, performance management is a series of processes rather than a management system.

According to Kandula (2011), Performance management is a process of designing and executing motivational strategies, interventions and drivers with an objective to transform the raw potential of human resource into performance. Performance management is viewed as an activity of goal setting and monitoring achievement of goals.

Performance management is a process or set of processes for establishing shared understanding about what is to be achieved, and of managing and developing people in a way which increases the probability that it will be achieved in the short and longer term” (Armstrong and Murlis, 1994). In general, performance management includes activities that ensure that organizational goals are consistently being met in an effective and efficient manner.
manner so that it involves shared vision, management style, employee involvement, incentives and rewards, competence framework, team work, education and training, attitudes, and dialogue.

Performance management as an ongoing process involves both managers and the employees in: identifying the strategic vision, goals and objectives of the organization; identifying and describing essential job functions and relating them to the mission and goals of the organization; developing realistic and appropriate target standards of performance; implementing ways of measuring actual, compared with target performance; communicating constructive performance evaluations; and planning development opportunities to sustain, improve or build on employee work performance (Neely et al., 1996). The performance management process provides an opportunity for the employees and performance manager to discuss development goals and jointly create a plan for achieving those goals. Development plans should contribute to organizational goals and the professional growth of the employees (Carney, 1999).

According to Armstrong (2000) “performance management is a strategic and integrated process that delivers sustained success to organizations by improving the performance of people who work in them, and by developing the capabilities of individuals and teams”.

**Difference between Performance Appraisal and Performance Management**

Expert often uses the phrases of performance management and performance measurement interchangeably, but two terms are somewhat different. From the foregoing discussion, it is clear that performance management is a broader concept and more encompassing than performance appraisal. It is much more than mere appraisal of employees. Performance management means and includes entire system like a setting of goals, a work environment, a culture etc. bringing together all of the essential factors so that all the people are enabled to work in an aligned and coordinated manner to the best of their abilities whereas Performance appraisal is much more limited in scope. It is a process to assess how individual employees are performing and how they can improve their job performance and contribute to overall organizational performance.
Performance Management is the process which involves; determination of strategic objectives, setting of departmental/team goals, development of performance plan, outputs agreed, control and evaluation of performance through appraisal, determination of development needs and allocation of reward.

Performance appraisal is the most important part of performance management process. Broadly speaking, the process of performance appraisal begins with the establishment of performance standard which should be clear and not vogue. Following this the appraisal system involves: communication of performance expectations to the employees, measurement of the actual performance, comparison of the actual performance with the standards, discuss the appraisal with the employees, taking necessary corrective steps, if necessary.

Performance management is action which is based on performance measures and reporting, and results in improvements in behavior, motivation and promotes innovation, while performance measurement is quantifying, either quantitatively or qualitatively, the input, output or level of activity of an event or process. The primary function of performance measurement is to specify broad and abstract goals and missions to enable evaluation and the main aspects of performance measurement are to decide: what to measure, how to measure, interpreting the data; and communicating the feedback.

Performance appraisal forms an integral part of performance management, which is used to appraise the performance of employees for the work performed, and used for evaluating the strengths and weaknesses of employees. As a crucial element of a performance management system, performance appraisal also helps to identify where change is required to improve performance for achieving the desired behavior.

Performance appraisal focuses on whether an individual is performing assigned duties, as well as to manage observed variances between set standards and actual performance through joint actions taken by both the supervisor and the subordinate, while performance management deals with the processes and activities of the organization that enhance the design, development, implementation of performance technologies. It embraces all formal and informal methods adopted by an organization and its managers to increase
commitment and individual and corporate effectiveness. Performance appraisal is reactive while performance management is proactive which focuses on future performance planning and improvement.

The purposes of performance appraisal are diverse, and can often remain a puzzle in management processes, particularly, in developing and implementing the appraisal system. However, it is important that the design and implementation of a Performance Appraisal System be in line with the purposes it is intended to serve. Generally the purpose of performance appraisal is: determining training needs, merit review, salary administration, promotions, layoffs, transfers, termination, improving work performance, communicating expectations, determining employee potential and aiding, employee counseling and recognition for good performance.

Whereas According to Brown many different reasons for introducing performance management are (Brown, 2005) : (1) to provide information on organizational and/or employees’ effectiveness (2) to improve organizational and/or employees’ effectiveness (3) to provide information on organizational and/or employees’ efficiency (4) to improve organizational and/or employees’ efficiency (5) to improve employees’ levels of motivation; (6) to link employees’ pay with perceptions of their performance (7) to raise levels of employee accountability and (8) to align employees’ objectives with those of the organization as a whole.

Performance management is the system which serves the purposes like set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards (Briscoe and Claus, 2008).

Whereas performance appraisal forms the foundation for many human resource functions, effectively setting the standards to drive recruiting efforts, and it is customary to use these criteria in hiring, promoting, evaluating and equitably compensating employees, and forming the basis for many employee training programs (Gibson, Harvey & Harris 2007).

Performance appraisal is a "central management process, which means that it needs to be linked to such activities as business planning, clinical audit, etc" (Edmonstone, 1996).
Performance appraisal is a tool to achieve a variety of human resource management objectives” (Kumar, 2005).

Performance management is a dynamic, ongoing, continuous process. Performance management is a goal-oriented process that is directed toward ensuring that the organizational process maximizes the productivity of employees which ultimately contribute to the achievement of organizational goal. But Performance Appraisal is a one-time event which is generally performed each year.

Performance Appraisal Compared with Performance Management

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<tr>
<th>Performance Appraisal</th>
<th>Performance Management</th>
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<tr>
<td>Top-down assessment</td>
<td>Joint process through dialogue</td>
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<tr>
<td>Annual appraisal</td>
<td>Continuous review all the year round</td>
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<tr>
<td>Use of ratings</td>
<td>Ratings less common</td>
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<tr>
<td>Monolithic system</td>
<td>Flexible process</td>
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<tr>
<td>Owned by the HR department</td>
<td>Owned by line managers</td>
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<tr>
<td>Bureaucratic – complex paperwork</td>
<td>Documentation and paper work kept to a minimum</td>
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<tr>
<td>Applied to all staff</td>
<td>Applied to all staff</td>
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<tr>
<td>Often linked to performance pay</td>
<td>May not be linked to performance pay</td>
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<tr>
<td>Focus on levels of performance and merit</td>
<td>Focus on development as well as performance</td>
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<tr>
<td>Backward looking</td>
<td>Forward looking</td>
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Performance appraisal is an integral element of organizational life. If used well, performance appraisal is an influential tool that organizations have to exercise to coordinate the activities of every employee of the organization towards the achievement of its strategic goals. Hence performance appraisal, as a process of identifying, observing, measuring and developing human performance has attracted the attention of both academics and practitioners.
Performance is a matter not only of what people achieve, but how they achieve it (Armstrong and Baron 2005). According to Brumbach (1988) “Performance means both behaviors and results. Behaviors are also outcomes in their own right and can be judged apart from results”. Performance is a multidimensional construct, the measurement of which depends on a variety of factors (Bates and Holton, 1995). Byars & Rue (1994) claim that performance is the degree of accomplishment of the tasks that makes up an employee’s job. It reflects how well the employee is satisfying the requirements of a job. Johnson, Penny & Gordon (2009) argued that performance is a sequence of responses aimed at modifying the environment in a specific way.

Linking Appraisal to performance, Bird (2003) suggest performance appraisal is the assessment of what we produce and how. Performance Appraisal – much have we heard of this word yet many failed to understand what it means (Scholtes, 1993). There are various authors, leaders, managers and gurus who have defined performance Appraisal according to their knowledge. But again, this buzz word appears to be mere a jargon to the ordinary people on the street (Scholtes, 1993). Probably, the differences in the definition of the word itself are due to the scale of impact it has caused to the people, organization, economy and so forth, individually (Kumar, 2005; Pettijohn et al., 2001). But it is understood that after an employee has been selected for a job, has been trained for it, and has worked for a period of time, her or his performance should be reviewed.

Different authors have defined performance appraisal in different ways:-

- Performance Appraisal is defined “as a tool to identify and monitor staff’s competences, as well as taking into account a company’s core competence and external demands” (Ubeda & Santos, 2007).
- Performance appraisal is the process through which an organization gets information on how well an employee is doing his or her job (Noe, Hollenbeck, Gerhart & Wright, 2006).
- Performance appraisal is the process of obtaining, analyzing and recording information about the relative worth of an employee (Dowling, Welch and Schuler, 1999; Moorhead and Griffin, 1992).
Erasmus, Schenk, Swanepoel & Van Wyk (2003) refer to a performance appraisal as a formal and orderly process where specific work related strengths and weaknesses of workers are distinguished, ascertained, assessed, recorded and developed.

Alo (1999) defines performance appraisal as a process involving deliberate stock taking of the success, which an individual or organization has achieved in performing assigned tasks or meeting set goals over a period of time. It therefore shows that performance appraisal practices should be deliberate and not by accident. It calls for serious approach to knowing how the individual is doing in performing his or her tasks.

Thus performance appraisal is a management tool and a process of maintaining records, analyzing and evaluating the performance of the employees to find out the strength and weakness in order to develop the efficiency of the employee.

Some authors have defined Performance Appraisal “as a structured formal interaction between a subordinate and his/her superior. It usually embraces of a periodic interview, in which the work performance of the subordinate is examined and discussed” (Arbaiy & Suradi, 2007). Though Classical approaches to performance appraisal have treated performance appraisal as a measurement process, whilst more contemporary approaches to appraisal are more concerned with information processing within the performance appraisal decision-making process (DeNisi, 1996).

Performance appraisal is not a distinct process rather a continuous process through which performance of employees is identified and measured against pre-set standards as defined by the following authors:

- According to Angelo S. DeNisi and Robert D. Pritchard (2006) “Performance appraisal” is a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. Thus Performance appraisal involves fixation of certain expectations or a standard of work performance against which the performance of employees is evaluated.
Performance appraisal is defined as the process of observing and evaluating a staff member’s performance in the workplace with relation to pre-set standards (Abdul Aziz, 1999). In the same tune Performance appraisal is defined as evaluating employees how well they do their jobs according to performance standards (Dessler, 2000; 321).

At its best, performance appraisal is an ongoing process of interaction with a focus on employee- performance in the past, present, and future. Hence it requires a planned interaction between employees and their supervisors during which the former examine the performance of the latter to identify strengths and weaknesses with the view to arrive at objective personnel decisions. It is such an evaluation process, in which quantitative scores are often assigned based on the judged level of the employee’s job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated.

Following authors have highlighted feedback approach in their definitions as follows:

- Mathis and Jackson (2005) stated that performance should be compared to a set of standards and then communicated with the employees.
- Moorhead and Griffin (1992) describe it as “the process of evaluating work behaviors by measurement and comparison to previously established standards, recording the results, and communicating them back to the employee.
- Yee and Chen (2009) which also says that performance appraisal evaluates employees’ present and previous output within the laid down standards, but adds on that it also provides feedback on employees’ performance in order to motivate them to improve on their job performance or at least encourage them to reduce inefficiencies in their work.

Performance appraisal is a formal organizational mechanism for controlling the performance of work tasks on a rational, subjective and continuous basis, and is according to Bevan and Thompson (1991):

1. The yearly or half-yearly setting of individual performance targets relating to the operating units’ target within the overall organization;
2. A formal review of progress towards these targets, and/or the identification of training needs;
3. The creation of a shared vision of the organizations objectives, occasionally through a mission statement communicated to all employees.

Performance appraisal (Murphy & Joyce 2004) may be defined as a structured periodic (generally annual) review of employees by management through various formats. Performance appraisal includes, but is not limited to, interview by seniors, fulfillment of the agreed targets, and assessment of knowledge through examination. “Performance Appraisal” has been synonymous with performance review, performance evaluation, and other terms and combinations of terms. Performance Appraisal has, over time, referred to 1) an instrument or form to assess an employee’s job performance, 2) an interview where an employee’s job performance is assessed and feedback is given to the employee, 3) a system of setting employee job expectations/ employee actual job performance/assessing that performance/feedback to the employee on the performance assessment and how to improve it in the future/setting new goals and expectations for another period, or 4) performance management with job performance appraisal a part of it (Dessler, 2011).

The performance appraisal is essentially a formal mechanism to develop the efficiency of the employees. Performance appraisal’s definition however, prescribes a ‘required’ outcome of productive increases in performance. Individuals, as people, are only peripherally related to it (Bartol and Martin 1991). This process includes various practices like recognition of employees’ achievements, providing them regular feedback and offering career development (Aguinis, 2007; Lansbury, 1988). Thus various authors have defined the performance appraisal as a process of developing the performance and career of employees.

- Murphy and Cleveland (1995) defined Performance Appraisal System as a tool that accomplished specific goals, such as self-enhancement or improvement of relationships with subordinates. It is one of those processes in organizations that aim to enhance productivity through mutual interaction between the supervisor and the subordinate (Gunter, 2002; Wanzare, 2002).

- Fletcher (2001) defines it as the ‘activities through which organizations to assess employees and develop their competence, enhance performance and distribute rewards.'
Performance appraisal is viewed as an appropriate way to lead to an improved relationship between remuneration, responsibilities and performance (Bartlett, 2000; Haynes et.al. 2003). Mckenna et al. (2002) also define performance appraisal as any personnel decision that affects the status of employees regarding retention, termination, promotion, demotion, transfer, salary increases or decreases, or admission into a training program.

- Boswell and Boudreau (2002) have defined developmental performance evaluation as each attempt that results in enrichment of viewpoints, experiences and skills in order to improve employees’ efficiency (Kuvaas, 2006).

- Manoharan, Muralidharan and Deshmukh (2009) posit that performance appraisal is an important management tool to assess employees’ efficiency in the workplace, and may be defined as a structured formal interaction between a subordinate and supervisor that usually takes the form of a periodic review which could be annual or semiannual to evaluate work performance.

- Boice and Kleiner (1997) noted that performance appraisal was “most commonly undertaken to let an employee know how his/her performance compares with the supervisor’s expectations and to identify areas that require training or development.

- Lecky (1999) defined Performance Appraisal System as a benchmark which is set against specific task performance, define and evaluate current performance. It requires the input and output such as remuneration, pay rise, level of expectation, promotion and managerial planning. In addition, it is a merit rating which should be beneficial to both parties and must be constantly reviewed to suit the requirement.

Performance appraisal through the development of performance of individuals also contributes to achieving the goals of the organization. Different authors have highlighted the issue in their definitions.

- Performance is “the process of identifying, evaluating and developing the work performance of the employee in the organization, so that organizational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, and offering career guidance(Rafikul et.al
Performance appraisal is intended to engage, align, and coalesce individual and group effort to continually improve overall organizational mission accomplishment (Grubb, 2007).

- Performance appraisal is defined as “the process of identifying, evaluating and developing the work performance of the employee in the organization, so that organizational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, and offering career guidance (Islama and Rasad, 2006).

- Performance Appraisal is a tool to achieve a variety of human resource management objectives” (Kumar, 2005.). This is a “central management process, which means that it needs to be linked to such activities as business planning, clinical audit, etc” (Edmonstone, 1996). Coutts and Schneider (2004) noted Performance appraisal as a “vital component of a broader set of human resource practices; it is the mechanism for evaluating the extent to which each employee’s day-to-day performance is linked to the goals established by the organization”.

- Fisher (1995) defined that appraisal is “a process of management which entails improving the organization’s performance through the enhanced performance of individuals”.

- Performance appraisal acts as a control system that is used by almost all organizations to specify the behavior so that they can perform their duties to achieve the organizational goal.

- Performance Appraisal process according to Mondy (2008) and Najafi et al., (2000), entails an evaluation of job performance of personnel in an organization with a view to achieving positive organizational goals.

- Boxall, Purcell & Wright (2007) stated that performance is behavior or action relevant to the attainment of organizational goals that can be scaled and measured.

Thus as a process of identifying, evaluating and developing the work performance of employees in terms of recognition, receiving feedback, catering for work needs and
offering career guidance in the organization, it also helps to achieve organizational goals and objectives more effectively.

Though there are various definitions of, it leads to a similar meaning. Common to most definitions of performance appraisal is the concept of improving performance and developing people, although its use in organizations continues to be varied.

2.4. Importance of Performance Appraisal

Most organizations whether it is in the public or private sector adopt performance appraisal considering its importance in achieving the organizational goal in a competitive market. Performance appraisal of employees is a key task towards managing the human resources of an organization. Moreover it is understood that valuable human expertise is the main source of competitive advantage for the organizations and therefore discovering talented workers through performance appraisal is an important requirement to every organization. A strong performance measurement system provides feedback which can be used to evaluate the HR strategy of the organization and predict the impact of future decision. A well thought out measurement system acts as both a guide and benchmark for evaluating the contribution of human resources to strategy implementation. A sound performance measurement system also provides a valid justification for contribution in human resources. Employees cannot claim their share unless they have legitimate contribution to the financial success of the organization.

The literature on employee appraisal, covering a wide spectrum of fields such as commerce and industry as well as the private and the public sectors including schools, identifies three main purposes of appraisal: to serve as a basis for modifying behavior to realize more effective working habits; to provide adequate feedback to each employee on his/her performance; and to provide managers with data with which to evaluate future assignments and determine compensation (Kermally, 1997, Mullins, 1996). The common objectives of performance appraisal are reviewing past performance, rewarding past performance, goal setting for future performance, and employee development (Hall, Posner and Hardner, 1998).
In addition the general purposes of performance appraisal include the following main purposes: creation of a shared vision of the organization’s objectives, occasionally through a mission statement communicated to all employees, setting of individual performance targets relating to the operating unit’s target within the overall organization, a formal review of progress towards these targets, and/or the identification of training needs, the Performance Appraisal System assessed regularly to evaluate its effectiveness for overall organizational performance (Coates, 1994).

Teratanavat, Raitano and Kleiner (2006) found outcomes of performance appraisal like reduced employee stress, review of overall progress, linkage between current performance and employee’s goals, and development of specific action plans for future.

More specifically Performance Appraisal System serves the following purposes:

**2.4.1. Administrative and Developmental Purpose**

Brumback (1988) suggests that performance appraisals have been used for two primary purposes. First, help managers in making administrative decisions, especially regarding pay and promotions, and, second, to meet developmental objectives, such as coaching staff and assessing their training and development needs. In the same tune it was stated that performance appraisal information can be used for developmental and administrative purposes by Bohlander & Snell, (2007). Thomas and Bretz (1994) report that performance information is most likely to be used for employee development or to administer merit pay. They have also identified the main developmental uses of performance appraisal as improving work performance, communicating expectations, determining employee potential and aiding employee counseling. Developmental functions of Performance Appraisal System according to Boswell and Boudreau (2000) include the identification of individual training needs, providing performance feedback, determining transfers and assignments, and the identification of individual strengths and weaknesses.

Hodgetts and Kuratko (1991), Kermally (1997) and Mullins (1996) also supported the developmental role of Performance Appraisal System stating that one of the purposes of appraisal is to serve as a basis for modifying or changing behavior towards more effective working habits. Dobbins, Cardy and Platz- Vieno (1990) told five outcomes which covers
the administrative and developmental purpose i.e. use of evaluations as feedback to improve performance, reduced employee turnover, increased motivation, existence of feelings of equity among employees, linkage between performance and rewards. Mamoria (1995) and Atiomo (2000) stated that although performance appraisal is usually thought of in relation to one specific purpose, which is pay it can in fact serve for a wider range of objectives which are; identifying training needs, improving present performance of employees, improving potentials, improving communication, improving motivation and aids in pay determination.

2.4.2. Evaluation and Feedback Purpose

Performance appraisal generally is conducted for evaluation and feedback. When used for evaluation, the appraisal provides input for decisions on promotions, transfers, demotions, terminations, and compensation (salary increases). When used for feedback purposes, the appraisal focuses on the development of the individual, including the identification of coaching and training needs. The Performance appraisal process involves determination of standards of performance, which are clearly communicated to the employees and used as the basis of evaluation in the performance appraisal process. The ultimate goal of performance appraisal should be to provide information that will best enable managers to improve employee performance.

A crucial activity of Performance Appraisal System is providing the employee with feedback. Such feedback may encourage and enable self-development, which in turn will contribute to the overall development of the organization. Larson (1984) supports the importance of evaluations in terms of their effect on organizational effectiveness, stating that feedback is a critical portion of an organization’s control system. More frequent appraisals and feedback help employees to see how they are improving, and this should increase their motivation to improve further (Kluger and DeNisi, 1996).

2.4.3. Legal Protection

A strong Performance Appraisal System reduces the risk of lawsuits and losses in court (Schweiger & Sumners, 1994) by redressing employees’ grievances (Fink & Longenecker, 1998) and by helping the rater and the ratee to address inaccurate perceptions about the
purposes and uses of performance appraisal (Werther Jr. & Davis, 1996). A more negative view of performance appraisal is offered by Eckes (1994), who claims that performance appraisal records can be used as by an organization to guard against cases of wrongful dismissal.

2.4.4. Motivational Purpose

Performance appraisal is considered as one of the key elements which drive the organization towards competitive advantage through continuous performance improvement of the Human resource. Performance appraisal and its outcome play a key role in employees’ job activities and the organization (Thurston, McNall, 2010). It is such a technique which aims at improving performance; building both job satisfaction and organizational commitment.

Although the relationship between appraisals and performance may not be a direct and causal one, their impact on performance may be attributed to their ability to enhance: role clarity, communication effectiveness, merit pay and administration, expectancy and instrumentality estimates, and perceptions of equity. As the Performance Appraisal System involves setting goals for individual and the performance standard reduces the goal ambiguity and helps to measure the contribution of each employee with respect to the performance standard. Dubinsky, Jolson, Michaels, Kotahe, and Lim (1993) stated that increases in role clarity can affect both the effort/performance expectancy and performance/reward instrumentality estimates. Thus, by reducing ambiguity performance appraisals may positively influence the levels of motivation exhibited by employees.

Maji (2006) stated that people cannot be motivated but motivate themselves and managers can provide the environment for them to be motivated. There are many ways to provide a motivational environment for employees, and these include developing their skills, giving them feedback and rewarding in ways that means something to them. Therefore, performance appraisal (part of performance management) can be used as a tool to assist managers in motivating their employees.

According to Malcolm and Jackson (2002) there are three main groups of purposes of performance Appraisal:
Performance reviews – managers discuss with employees the progress in their current positions, their strengths and areas requiring further development; Performance reviews are focused on contributions to the organizational goals. Some forms of these reviews include the question “What organizational goals were contributed to and how?”

Potential reviews – the discussion is about employees’ opportunities for progression, and the type of work they will be fitted for in the future and how this can be achieved. Performance appraisal is done for various purposes such as professional and career development, accountability, links with pay and dismissal, also as a useful mechanism to determine salary increments and promotions (Abdul Aziz, 1999).

Reward reviews – the manager communicate decisions on rewards such as pay, benefits or promotion and provides feedback based on performance appraisal. Thus Performance Appraisal could be an effective source of management information, given to employees.

2.5. Multidimensional Utility of Performance Appraisal

From another way a Performance Appraisal System can serve the organization, managers and the employees in different ways.

2.5.1. Benefit for the Organization

An effective Performance Appraisal System improves organization performance. Organizations can only win a competitive advantage through people. The main objective of performance appraisal is to improve the efficiency of an enterprise by attempting to mobilize the best possible efforts from individuals employed in it. Such appraisals help to achieve various organizational objectives such as salary reviews, development and training of individuals, planning job rotation and assisting in promotions. If valid performance data are available, timely, accurate, objective, standardized and relevant management can maintain consistent promotion and compensation policies throughout the total system (Burack, Elmer and Smith, 1977). Employees’ skills and competencies significantly influence the organizations’ productivity, profitability and continued survival. Therefore, in order to achieve corporate goals and remain in business there is the need to assess
employees’ job performance and device strategies to manage them in an effective manner. Training and development policy can rectify the inadequate skills and ability while differences in motivation are corrected through the appropriate motivational strategies and policies. Therefore, for well-functioning organizations, the use of performance appraisal cannot be overemphasized. However, the extent to which appraisals play a valuable role in the organization depends on how it is conducted. Performance appraisal serves many purposes within organizations like providing employees with feedback, controlling employees and to determine individual merit. Outcomes of performance appraisal can lead to improvements in work performance and therefore overall business performance via, for example increased productivity or customer service. Besides, he identifies an additional benefit: performance appraisal can help to identify inefficient work practices or reveal potential problems, which are restricting the progress of the company.

The success and survival of an organization depends on the efforts of employees and appraisal is one way to motivate the employees managing the performance of employees in alignment with the aims of an organization. Hence Performance appraisal is considered as one of the important human resource practices and heavily researched topics in work psychology. The overall objective of performance appraisal is to improve the performance of an enterprise by attempting to mobilize the best possible performance from individuals employed in it. Performance Appraisal System is considered as an important management tool for confirming the effectiveness and efficiency of employees in the workplace (Amstrong and Baron, 1998). Performance appraisal is done well can serve a very useful role in coordinating and reconciling the needs of the individual and the needs of the organization. It can focus each employee’s mind on the organization’s mission, vision, and core values. Performance appraisal has been considered as a most significant and indispensable tool for an organization because it provides vital information which is highly useful in making decisions regarding various personnel aspects such as promotions and merit increases. However, if performance appraisal is not done well, Grote suggests the process can become the object of jokes and the target of ridicule.
There is a consensus that performance appraisal is a key process which is vital to the existence and development of the organization (Latham and Wexley, 1981; Fombrun and Laud, 1983). The effectiveness of an organization’s Performance Appraisal System is a prerequisite for ensuring the success of its selection, training, and employee motivation practices (Latham and Wexley 2001). At a strategic level, the need for rapid and effective organizational change in today’s dynamic social, economic, and political environment requires that employees continually realign their performance with the evolving goals and objectives of the organization (O’Donnell and Shields, 2002). The need to continually realign performance characterizes many organizational departments which continue to struggle with getting their members to embrace the philosophy and practices that are geared at enhancing performance (Scrivner, 1995; Vinzant and Crothers, 1994). An appraisal system must drive towards changing needs which should be pursued in the context of improving the organization’s effectiveness.

A well-designed appraisal system can help organization separate outstanding performers from those who are below average. Organizations that identify hard working and productive employees and reward them accordingly, create conducive atmosphere for individuals and organizations’ growth. But a poorly designed appraisal system can create anxiety and negatively affect the morale value of the people towards the organization. Vigoda (2000) noted that when employees feel unfairly treated, they are likely to react by initially changing their job attitudes, followed in the longer term by responses that are more retaliatory such as quitting. But Performance Appraisal used effectively, entails an evaluation of job performance of personnel in an organization with a view to achieving positive organizational goals. Most organizations traditionally use performance appraisal as a tool not only to identify hard working employees, but also a tool to motivate staff.

Evidence suggests that simply having performance appraisals is associated with higher levels of individual performance (Marc-Arthur et al. 2009) as compared to individuals in jobs that do not have appraisals. By this view, performance appraisals are a necessary adaptation to imperfect information, something like a band-aid adaptation to the contracting model. A Performance Appraisal System is an important activity for an
organization, which align the individual objectives with the aims of any organization. Since the economy at present is heavily contributed by the service industries that are principally governed by human resources, the crucial importance of the process of appropriate performance appraisal is beyond doubt. Cleveland and her associates (Cleveland et al., 1989) presented a classification of the reasons for conducting appraisals in organizations, and these included documentation, within-person decisions (feedback on strengths and weaknesses) and between-person decisions (who to promote). Edmonstone (1996) noted that some of the agendas that lead to performance appraisal procedures being conducted within an organization include:

a) Improvement in the communication between boss and subordinate through the use of feedback between them.

b) Identification of the scope for performance improvement and the means to achieve this.

c) Identification of individual training and development needs.

d) Identification of the potential of individuals for future promotion, succession planning, or for retention or termination purposes.

e) As the basis for remuneration and reward, on the basis of performance.

f) As a powerful means of managerial control, through the setting of objectives in a hierarchical fashion and a review of success or failure in achieving these.

Considering the various purposes of Performance Appraisal System there is an increasing use of the performance appraisal process in the organizations as it ultimately improves the organizational performance through the improvement of individual performance. Performance appraisals are indispensable for the effectual supervision and costing of staff (Jabeen, 2011). It is an important factor in identifying the people’s talents and capacities and its results can make them aware of advancements, plans and goals (Hamidi, 2010). The most obvious reason for appraising an individual is to secure its improvement (Harrison & Goulding 1997) and it follows that securing performance improvement for all individuals will enhance wider organization performance. Thus the issue of
employees' performance in relation to achieving organizational goals has occupied management’s attention for a long time.

Delpo (2005) said that an effective Performance Appraisal System will help the organization to provide a solid foundation for all aspects of the employer/employee relationship. Such a system can help to:

- Determine how the job of each employee can contribute to achieve the overall goals of the organization
- Examine each employee as an individual to evaluate the employee’s strengths and weaknesses
- Identify and reward good employees, in order to foster loyalty and motivate employees to continue to achieve
- Keep employee morale high through continuous feedback
- Stay on top of the needs of workforce to ensure employee retention and increase productivity and innovation
- Reduce the risk of complaints and litigation by ensuring that employees feel treated fairly and are not surprised by management decisions.
- Identify and deal with problem employees to either turn those employees into valuable, productive workers or lay the groundwork for discipline and, if necessary, termination.

Performance appraisal that complies with privacy restrictions can create a healthy “organizational climate” in which problems and grievances can easily be detected and handled (Stewart & Stewart, 1977). Such an organizational climate fosters progressive discipline that gives weight to the voice of employees (Galang, 2004; Lilley & Hinduja, 2006). All of this translates into a better employee performance, which leads to improve departmental performance as well as the success of the organization.

Atiomo (2000) agrees with Fajana (1997) that performance appraisal is a system which provides organizations with a means of identifying not only what people’s performance
levels are but which areas those levels need to be improved if maximum use is to be made of human resource. According to Atiomo, every organization should ensure that the individual is clearly aware of what his functions and responsibilities are to make performance appraisal effective.

Performance Appraisal will develop both organizational and individual capabilities and reach agreement on areas where performance needs to be improved. Performance appraisal provides information for organizational planning (Walsh & Fisher, 2005) that increases organizational effectiveness (Spinks et al., 2004), productivity (Herdlein, Kukemelk, & Tu’rk, 2008).

2.5.2. Benefit for the Managers

An organization can achieve success by integrating HR activities and business policies. Performance appraisal helps management to control and motivate the employees as well as provides vital input for various managerial decisions. Performance appraisal and management plays an important role in the effective management of employees in every viable organization, particularly in light of the recent economic downturn experienced around the globe that have forced governments and organizations alike to improve their performance and save resources where possible (Armstrong, 2006). Performance Appraisal Systems are mainly used for judgmental and developmental purposes in order to make good administrative decisions (Arbaiy and Suradi, 2007). The similar importance of performance appraisal was noted by Coutts and Schneider (2004). Performance appraisal allows the managers to inform their employees about their rates of growth, their competencies, and their potentials. It enables employees to be intentional in creating their individual developmental goals to help in their personal growth. Thus performance measures link information gathering and decision-making processes, which provide a basis for judging the effectiveness of personnel sub-divisions such as recruiting, selection, training and compensation. According to Boswell W. Boudreau (2000) the evaluative function includes the use of performance appraisal for salary administration, promotion decisions, retention-termination decisions, and recognition of individual performance, layoffs, and the identification of poor performance. Nurse (2005) viewed provision of
information for the development of managerial strategies for training and development as an outcome.

Managers may conduct performance appraisals to affect employee behavior through the feedback process, or to justify some sort of human resource management action (termination, transfer, promotion, etc.). In addition, many other benefits may also accrue from the information yielded by the appraisal. Performance appraisal provides adequate knowledge to the managers for effective selection and placement programs, training and development needs, budgeting; human resource planning, and reward decisions. Another important purpose for appraisal is that it provides the basis to take disciplinary action for the employees such as denying a pay increase or justification of employee termination.

Performance Appraisal helps the management to identify high performers and poor performers which is a crucial part of personnel management for identification of strengths and development areas. Thus Performance Appraisal facilitates to take decision about wages and salaries and about employee recognition and rewards according to the merits of the employee. Such a compensation system motivates employees to improve performance (Law & Tam, 2008).

Mullins (1996) claims that in addition to identifying the individual’s strengths and weaknesses and the ways in which such strengths may best be utilized and weaknesses overcome, appraisal also helps to improve the quality of working life by increasing mutual understanding between managers and their staff. An effective performance appraisal feedback seemed to involve, inform, and motivate employees and also helps to improve the communication system between the supervisor and the employee. An efficient Performance Appraisal process offers supervisors and subordinates with opportunities to communicate with one another in performance planning and review meetings (Galang, 2004), which strengthens their working relationship (Shaikh, 1995) and improves the work environment (Wilson & Western, 2000).

2.5.3. Benefit for the Employees

As the world began to shift towards knowledge base capitalism, employees are also becoming conscious about the importance of performance appraisal since Performance
appraisal very much affect their career paths. In the context of performance appraisals, a critical stakeholder is the employee, the Performance Appraisal process is designed to stimulate and motivate employee performance. Human resources are arguably the most valuable assets of any organization and obviously constitute a significant part of total investment in the organization. Performance Appraisal is an effective instrument in the human resources management, which if performed correctly and logically, the organization will be able to influence the personnel to achieve their interest. However, if not evaluated and motivated properly, the effectiveness and efficiency of the employees may become reduced and the asset may transform to a liability.

Performance Appraisal provides direction for employees’ behavior in-line with the organizational goals and fixes the rules and regulation to standardize employee behavior, resulting in accuracy of performance. An appraisal system must not only evaluate what has been accomplished, but also “guide future development, leverage existing strengths, and address skill deficiencies” (Squires and Adler, 1998). Performance appraisal evaluates employees’ present and previous output within the laid down standards and provides feedback on employees’ performance in order to motivate them to improve on their job performance or at least encourage them to reduce inefficiencies in their work (Yee and Chen, 2009). Nelson (2000) also stated that performance appraisal largely helps the employee to have a focused and fixed approach towards the target goal. He elaborates that appraisal system acts like a boosting factor for the employee to do his job well. It recognizes the employee’s capabilities in order to achieve the given objective and function. It also helps in knowing the shortcomings of the employees and acts like an important element, for career development and planning.

It is noted that Performance Appraisal activities have potential to increase employees’ perceptions of being valued by the organization, a perception which is central to affective organizational commitment (Levy and Williams, 2004). Employees probably show higher affective commitment to the organization if they perceive that Performance Appraisal System of the organization reflects development of the employees. Employee participation and perceived clarity of goals within the Performance appraisal process increases the Performance appraisal satisfaction which may be positively related to affective
commitment. Performance Appraisal motivates the employees to perform effectively, understand what is expected of them and evaluates the ability and skills to fulfill their responsibility. Performance Appraisal satisfaction also influence job satisfaction and extent of job involvement, and absenteeism (Albion, Fogarty, Machin & Patrick, 2008; Cohen & Golan, 2007).

Besides enhancing motivation, appraisal is about involvement in the ‘big picture’ – responsibility, encouragement, recognition for effective delivery and effort (Malcolm and Jackson, 2002). Performance appraisal ratings serve to set up competition (rather than cooperation) among employees and serve to label employees as winners or losers, not only for pay increases but also for training, development and promotion opportunities (Buckingham, 2005).

As a whole Performance appraisal has increasingly become part of a more strategic approach which plays an important role to integrate human resource activities in alignment with the organizational goal covering a variety of activities through which organizations evaluates employees, motivate and develop their competence, enhance performance and distribute rewards as recognition of performance. Appraisal, according to Smith (2000), involves the identification of cause and effect relationships on which employment and labor policies are based or can be based and are a routine process that organizations use to evaluate their employees. It is a systematic assessment that is as objective as possible of ongoing programs or policy, its design, implementation and results. Its aim is to appraise the relevance and fulfillment of objectives, efficiency, effectiveness, impact and sustainability. The implementation of an objective and purposeful performance appraisal procedure fulfills the purpose of optimizing the crucial human element aspect, but dissatisfaction with appraisal procedures could potentially lead to high employee turnover, decreased motivation, and feelings of inequity. Appraisals are generally considered to have a positive influence on performance, but they also may have a negative impact on motivation, role perceptions, and turnover when they are poorly designed or administered (Churchill et al., 1985). Moreover, Performance appraisal dissatisfaction will affect employees’ tendency to quit job position through decreasing of job satisfaction.
2.6. Problems in Performance Appraisal

Designing an effective Performance Appraisal System in public sector organizations is considered to be a pathway to the overall development of the organization as well as the nation. But designing performance criteria most difficult task and also one of the mishandled aspects of management as the effectiveness of an appraisal system depends on how effectively the organizations become benefited by that system. The Performance Appraisal Systems tend to have several problems. Hence despite advances in evaluation design, the researchers still continue to search for factors of effective Performance Appraisal System. Supervisors and employees generally have ambivalent attitudes, at best, toward performance appraisal (Cederblom & Pemerl, 2002). Although the role Performance Appraisal System in documenting, communicating, and setting goals in areas of performance are mostly recognized, still many are frustrated concerning the actual benefit received from performance appraisal in their organizations. The benefits and rewards of performance appraisal appear to be often overstated (Longenecker & Nykodym, 1996). Nickols (2007) suggests that “the typical Performance Appraisal System devours staggering amounts of time and energy, depresses and demotivates people, destroys trust and teamwork and, adding insult to injury, it delivers little demonstrable value at great cost”. There are various problems in Performance Appraisal System which acts as a hindrance to an effective appraisal system. Generally an appraisal system fails to provide the requisite benefits to the organizations due to the following limitations:

2.6.1. Lack of Standard Performances Appraisal System:

Developing an appraisal system that accurately reflects employee performance is a difficult task. Because Performance Appraisal Systems are not generic or easily passed from one company to another; their design and administration must be tailor-made to match employee and organizational characteristics and qualities (Henderson, 1984). The first step in developing an effective Performance Appraisal System is to clarify what is expected of the employee. It should address clarity and convey the evaluation standard to the employees so that employees understand the basis of evaluation of the raters. But in most of the cases subjective evaluation system does not clarify the evaluation standard and it becomes raters’ perception based appraisal system. This is also studied that supervisors
being biased often apply different standards with different employees which results in inconsistent, unreliable, and invalid evaluations (Folger et al., 1992).

2.6.2 Lack of Objectivity:

One of the crucial problems of traditional performance appraisal methods is that they lack objectivity. But to be effective an appraisal system should be less subjective. In a subjective Performance Appraisal System it is very difficult to measure ratees’ attitude, behavior, personality, appearance etc. Though these factors may have little impact on an employee’s job performance, the firm may be hard-pressed to show that these factors are job-related. Moreover employee appraisal based primarily on personal characteristics may place the evaluator and the company in untenable positions with the employee and equal employment opportunity guidelines. Malos (1998) stated that, to be legally sound, appraisals should be job-related and based on behaviors rather than traits.

2.6.3. What is to be Measured and How:

The two basic considerations in designing the actual appraisal tool are what to measure and how to measure it (Dessler, 2011). The object of an effective Performance Appraisal System is to design employees’ individual goal in such a way which contributes to organizational goal. Many organizations fail to design an appropriate appraisal system as they cannot determine properly what is to be measured due to lack of specificity in individual goal. Moreover in an organization most of the work is the product of team work where individuals are working within a system of interdependent processes and reflects the cooperation of all individuals and processes. It is very difficult to ascertain any person’s specific level of contribution and which is also virtually impossible. The main problem is that the Performance Appraisal System focuses on individual’s performance and team work is undermined. Generally, Performance appraisal typically focuses on the wrong things such as “performance pay” based on individual performance rating, instead of group coordination and organizational productivity. Thus it helps to identify individual strength and weaknesses, rather than the net combination of an individual’s strengths and contributions to the team and organization.
Next question arises how to measure. There are various methods of performance appraisal e.g. graphic rating scales, forced distributions, and ranking (paired comparison, alternation, straight), BARS, BOS, MBO and different methods have different pros and cons. Hence selecting a particular method considering the situation and nature of an organization is a very difficult job.

2.6.4. Frequency of Performance Appraisal:

A big issue regarding the Performance appraisal process that has caused much trouble is to determine how many times the appraisal to be made. Performance appraisal is generally done either at the end of performance for hired employee or at the end of a fixed evaluation period e.g. annually. Rating employees according to the date when they were hired allows managers to allow enough time to pass in order to have a productive appraisal. Whereas rating all employees at the same time in case of annual appraisal system becomes a herculean job for the raters. Moreover rating all employees at the same time, sometimes called the focal point method, allow managers to compare employees to each other more easily and make broad changes in the direction of individuals and the entire firm (Grote, 2002). An appraisal system to be effective should be conducted as a continuous process. The communication between a manager and a subordinate is very much required to increase productivity, but the fact is that managers and employees are busy with their work and end up putting performance appraisals on the back burner so to speak.

2.6.5. Skills of Raters:

A common deficiency in appraisal systems is that the evaluators seldom receive training on how to conduct effective appraisal and how to reduce appraisal errors. Lack of raters’ training on how to evaluate give and receive feedback, the process can lead to uncertainty and conflict. But training of the raters as an ongoing process in order to ensure accuracy and consistency is not followed in most of the organizations. If the raters do not have sufficient skills to conduct performance Appraisal, the results will be less than ideal. In most of the cases evaluators are not given the necessary training to perform the performance Appraisal effectively and consistently.
2.6.6. Motivation of Raters:

The relevance of the concept of raters’ motivation to the appraisal process is suggested by the fact that: if the rater is motivated to make accurate judgments about his ratees and if he feels free to be objective, then he has a good chance of achieving his aim, provided that he has the requisite abilities and can use the appropriate evaluative standards (Taft 1971). Six determinants of rater motivation are: (a) perceived consequences of accurate appraisal for both rater and ratee; (b) rater perceptions of the adequacy of the performance appraisal instrument used; (c) relevant organizational policies and practices; (d) rating format itself; (e) availability of appropriate standards of performance; and (f) purpose of appraisal.

But in reality argue the evaluations are often perceived by employees and supervisors with “fear and loathing” (Thomas and Bretz, 1994). Two possible explanations for the fear and loathing are the absence of a “sense of ownership” and an absence of rewards for properly completing the process. Cardy (1998) describes the appraisal process as “a difficult and error-ridden task.” Cardy also points out that it is an important task that affects both the individual and the organization. On the other hand whenever organization attempts to reward the ratee based on the performance appraisal raters may be motivated to assign inaccurate performance ratings because of the fact that the results of appraisal will have to be justified by the rater to the ratee. Whenever the question of justification of performance results arise raters feels uncomfortable or is reluctant to have a negative impact on ratee outcomes or on future rater-ratee interactions. As a result they are motivated to assign inaccurate ratings. Hence motivating raters to reflect a true picture of performance of the ratees becomes a great challenge to perform the appraisal system in an effective manner.

2.6.7. Rater-Ratee conflict

The role of an effective Performance Appraisal System is to develop the communication and relationship between the supervisor and the employee. But in most of the cases it causes the conflict between the employee and the supervisor. Employees getting a negative feedback cannot accept the performance appraisal as fair which contributes to hampering the relationship between the rater and the ratee instead of developing the better relation between them. This situation also creates an environment of dissatisfaction among all the
parties involved supervisors, employees, and HR administrators like supervisors, employees, and HR administrators. In most of the organization the appraisal process is viewed as either a futile bureaucratic exercise which has worse, a destructive influence on the employee-supervisor relationship.

The perceptions and emotions of employees are important in determining the efficacy of Performance Appraisal Systems. It is a sensitive matter, often elicits negative psychological reactions like resistance, denial, aggression, or discouragement, particularly if the assessment is not fair. High perceptions of evaluative performance appraisal use may result in negative feelings about the appraisal and also being hated by employees and supervisors alike.

2.6.8. Political Relations

Organizations are one form of political entities where no important decisions can be made without the parties acting to protect their own interests. It influences executives when they appraise subordinates. Politics in this sense refers to deliberate attempts by individuals to enhance or protect their self-interests through biased or inaccurate employee appraisal. Thus the accuracy is not the primary concern of the practicing executive in appraising subordinates rather than their self interest.

A big problem with the performance appraisal is implementing the policies based on the information gathered from the appraisal. An appraisal system will be useless if the results are not implemented properly and performed just as a routine job. Such appraisal system usually fail to give accurate evaluation as the raters do not take it as a serious matter and ratees also become indifferent about the performance rating system.

2.6.9. Resistance

The appraisal process may face resistance from the employees because of the fear of negative ratings. In most of the cases employees do not get opportunity to participate in appraisal system. Therefore, the employees should be communicated and clearly explained the purpose as well the process of appraisal. The standards should be clearly communicated and every employee should be made aware of what exactly is expected
from them (Walters, 1995). A participatory appraisal system increases the acceptance level of the employees about the appraisal system.

2.6.10. Lack of Rater’s knowledge about Ratees’ Performance

The accuracy of an appraisal system is greatly affected due to lack of knowledge of raters about the performance of their ratee. In most of the cases raters do the evaluation based on their perception. This may be due to facts that proper records of performance are not maintained on regular basis especially in case of annual appraisal system, or due to evaluation of large number of employees within a short period acts as a constraint to proper evaluation as per the true performance of the employees.

2.6.11. Performance Appraisal Biases

Performance Appraisal System must be reliable, practical, acceptable to both the raters and ratees, and capable of discriminating effective from ineffective performers (Cascio, 1987). While feedback for employee development is often a stated objective of Performance Appraisal System, the majority of employees and their assessors give more weight to “personal decision” application such as pay and promotion. This influences the accuracy of ratings, biasing them in a manner likely to reduce their value of performance improvement. In order for a performance system to be perceived as fair, it must be free of bias. Performance appraisals require the rater to objectively reach a conclusion about performance. The use of ratings assumes that the raters are reasonably objective and accurate. But in reality Performance appraisal in most of the case gets affected by different types of appraisal errors due to various reasons as discussed below.

2.7. Performance Appraisal Errors

2.7.1. Reasons behind Performance Appraisal Errors

● Raters’ Memory

Performance rating can be affected by errors due to the raters’ memories when there is long gap between the time of work performed and the evaluation time. This is found that in reality raters’ memories are quite fallible, and raters subscribe to their own sets of likes, dislikes, and expectations about people, which may or may not be valid (Ivancevich,
Murphy, Philbin and Adams (1989) in their study show that raters' memories affect the accuracy of performance appraisal ratings because raters' memories influence their recall abilities. Kozlowski and Kirsch (1987) also suggested that memory decay affected the ability to recall job and ratee information and thus introduces bias into the rating process and resulted in halo error and subsequently inaccurate ratings. When the rater's memory demands are great, bias in favor of general impressions or recent performance may be expected (Murphy, Gannett, Herr & Chen, 1986). Stress has been shown to impact memory by (1) causing less differentiation across dimensions (halo), (2) affecting information retrieval, and (3) possibly affecting categorization as well (Srinivas & Motowidlo, 1987). However, rater characteristics may moderate the degree to which memory decay is problematic. For example, Smither and Reilly (1987) concluded that rater intelligence, not rating delays, affected rating accuracy. Ahmad and Spicer’s (2006) research indicates that mental practice has a positive and significant effect on performance and the effectiveness of mental practice was moderated by the types of task, the retention intervals between practice and performance and the length or duration of the mental practice intervention.

- **Raters’ Prejudices**

Inaccurate ratings may also result from one’s willingness to see similarity and consistency, failure to record and attend to hit rates, and the discounting of impression-inconsistent information (Cooper, 1981). Evaluation errors due to evaluators' judgments occurs if the evaluator's rating of the employee's work performance is based on his/her own prejudices, such as racial or ethnic background of the employee, their gender or age, that

- **Raters’ Perception about Ratees**

Empirical research has demonstrated that the perception of raters towards individual ratees influences ratings. DeNisi, Robbins and Cafferty (1989) found that 'liked' employees are perceived to have good performance while 'disliked' employees are perceived to have poor performance by raters. Adding to this result of the study by Dobbins, G.H. and Russell (1986) found that supervisions punish 'disliked' subordinates more harshly than 'liked' subordinates. Mohrman and Lawler (1983) and Prince et al. (1991) have also pointed out
that when rating the performance of subordinates, managers are most likely to use discretion regarding those with whom they have had a close working relationship or social ties.

- **Raters’ Intention**

Managers may also intentionally distort the ratings they assign to a grievant. This is found that under certain conditions managers were willing to intentionally deflate the ratings assigned to particular employees (Longenecker, Gioia, and Sims, 1987). According to those authors, if a manager sees an employee's behavior as personally threatening or offensive, the manager might attempt to modify the employee's behavior by intentionally deflating the rating given to the employee. Thus managers use the performance evaluation process as a means by which to enhance their personal control over employees.

- **Complex Appraisal Process**

Inaccuracy and bias during staff evaluation can also occur because the appraisal process is complex and human judgment is inconsistent. Such manipulation of ratings or inconsistent ratings did have an effect on job satisfaction (Poon’s, 2004). The errors due to complex appraisal process also affect the objectivity of the appraisal very much.

- **Avoid Conflict**

Raters sometimes do the error to avoid the conflict. Some raters perceive that giving poor grade to a subordinate may make him questionable to his subordinate for explanation and can badly affect relationship with the subordinate. Hence to avoid conflict they like to give such a grade which will satisfy their subordinates. Pearce and Porter (1986) reported that feedback describing an employee as "satisfactory" as compared to above average or outstanding led to reduced organizational commitment and negative attitudes toward the Performance Appraisal System.

- **Trust in Appraisal**

Raters may not take the appraisal process seriously if the performance appraisal feedback is not considered by the organization for taking important decision which also reduces trust.
in the appraisal system. Bernardin, Orban, and Carlyle (1981) examined performance ratings as a function of trust in the appraisal system. They found that supervisors who had low trust in the appraisal process were more likely to commit leniency errors than where supervisors who had high trust in the appraisal process.

- **Lack of information**

This is studied that evaluators’ errors occur when evaluating performance of employees, due to limitation in processing information. This limitation leads to a more frequent use of "heuristics" or mechanisms for simplicity in the evaluation whether the estimates are related to investments or they are intended for people (Tversky, Kahneman, 1973). These heuristic algorithms, which often occur in subjective effectiveness measurements can lead to evaluators' errors (Noe, Hollenbeck, Gerhart, Wright, 2000).

Villanova and Bernardin (1991) focus on appraisers / raters likelihood of manipulating ratings in performance appraisal. Their approach sees this probability as a function of two sets of factors: First, weaknesses in a Performance Appraisal System which provide the "means" or raw material for rating distortion, facilitating it are: infrequent appraisals; performance criteria are irrelevant to the job, and/or non-specific, and/or non-verifiable; raters are appraising alone, and/or are poorly trained, and/or are unaccountable for Performance Appraisal tasks and/or must provide overall summary judgments of subordinates. Secondly, Factors in the appraisal context "that provide motives for raters to manipulate their ratings purposely" are: appraisal data are crucial for important decisions in areas such as remuneration and promotions; raters are poor at providing feedback, and/or have little faith in the PA system's validity and utility; and/or have low commitment to the unit or organization; rater-ratee, manager-subordinate relations are poor.

2.7.2. **Types of Performance Appraisal Errors**

The performance appraisal errors affect the objectivity of the appraisal very much. The most common errors in appraisal which are mostly done by the raters include:
**Hallo Error**

The halo effect is defined as "the influence of a rater's general impression on ratings of specific rate qualities" (Solomonson and Lance, 1997). In the appraisal process, the halo effect occurs when the raters draw similar conclusions about all aspects of an employee's performance. Murphy, Jako and Anhalt (1993) in their study of halo errors found these have negative impacts on the quality of rating. In this type of error the rater gives the subordinates good grades although their performances are not worthy either. This may be due to the facts that the raters sometimes cannot evaluate the employee's other characteristics separately or intentionally overlook poor performances as he likes that particular subordinate.

Halo bias may also occur if supervisors’ rating in one area of subordinate’s performance is being influenced by the performance in another area. Sims and Gioia (1987) identified six major reasons why managers inflate ratings: (a) to maximize subordinates' merit raises; (b) to avoid hanging 'dirty laundry' in public; (c) to avoid creating a written record of poor performance; (d) to give a break to an employee who has shown recent improvement; (e) to avoid confrontation with a difficult employee; and (f) to promote a problem subordinate 'up and out' of the department. This type of inflating grade may occur due to supervisors' tendency to elicit positive reactions from subordinates so as to increase their work motivation and performance, cooperation with their supervisors and increasing subordinates' trust in their supervisors. In addition to the aforementioned reasons for inflation, supervisors may also deliberately inflate ratings to avoid challenges from subordinates to their own performance ratings. Indeed, subordinates' opposition to their performance ratings is probably quite common because individuals typically overestimate their own performance level (Campbell and Lee, 1988). Such opposition becomes even more likely when organizational rewards and punishments are contingent on performance appraisals (Murphy and Cleveland, 1995). Resistance to low performance ratings is associated with such subordinate reactions as lower work motivation, greater alienation from the work environment, increased conflict with the supervisor, and diminished belief in the leadership legitimacy and power of their supervisor (Cardy and Dobbins, 1994; Murphy and Cleveland, 1995). Thus supervisors adopt a political strategy to inflate ratings...
to avoid creating an angry, demoralized, unmotivated, and unproductive work unit. Moreover the effectiveness of managers’ own performance is dependent on their subordinates so managers have the tendency to inflate ratings deliberately to ensure favorable reactions or avoid unfavorable reactions from their subordinates to their performance appraisals. Nathan and Tippins (1990) reported a positive relationship between halo error and accuracy of Performance Appraisal System, but Fisicaro (1988) concluded that a negative relationship exists.

Lefkowitz concluded from his review of 24 studies that positive regard for subordinates is often found related to greater halo effect and better interpersonal relationship (Lefkowitz, 2000). Halo errors have negative impacts on the quality of rating. He found that positive affective regard, i.e. the liking of the appraisee by the appraiser is associated with:

- higher ratings on the appraisal
- greater halo effect, thus a strength in one area positively affects the appraiser’s assessment of performance in other areas;
- reduced accuracy in the appraisal process;
- a disinclination to punish poor performance;
- better interpersonal relations between appraiser and appraisee;

**Horn Error**

The error due to horn effect arises when the rater gives poor grade although ratee's performance is worthy. In such a case the rater views all behaviors or actions of a subordinate negatively as he dislikes a particular behavior or action of the subordinate.

The halo and horn effect can be reduced through proper training of raters and providing accountability for giving particular rating. By maintaining proper records of both positive and negative performance incidents throughout the year for each employee, managers may recall each employee’s performance more accurately which also can be helpful in reducing the errors in Performance Appraisal System.
Leniency Error

Guilford (1954) defined leniency as a stable tendency on the part of particular raters to rate others higher than do other raters. The leniency error occurs when the raters have a tendency to be liberal in rating. They give 'high rating' irrespective of the actual performance of the employees unless they have a clear deficiency. Such raters do not want to "adversely impact" the future of subordinates and to be perceived as "unwanted person" on the eye of the ratees by giving the poor grade. Bernardin and Beatty (1984) have suggested that rater’s tendency to be lenient may be a result of their inefficacy in providing performance feedback. They discussed the issue of self-efficacy in terms of whether the ratee believes that he or she can deal with potential conflict effectively (Bernardin and Villanova, 2005). It is also found that when raters were aware that an employee had overestimated their performance, the raters tended to inflate their ratings of that employee in order to avoid conflict (Sharples & Randall 2008). Leniency errors may occur if a supervisor feels uncomfortable with comforting the aggressive employees with less than favorable evaluations. So to avoid conflict, the supervisor might choose to rate everyone high.

Lenient ratings could harm perceptions of pay system fairness by confusing the relationship between true performance differences and reward differences (Miceli, Jung, Near, & Greenberger, 1991). Leniency can undermine the potential beneficial effects of merit ratings on employee motivation (Milkovich & Wigdor, 1991). Leniency error can also cause considerable legal difficulties (Austin, Villanova, & Hindman, 1995). The courts, for example, examine performance appraisals for both fairness and feedback in making verdicts in wrongful discharge cases (Fulmer & Casey, 1990). Challenges to the employment-at-will doctrine¹ and terminations alleged to be related to age, race, or gender are likely to be more successful when personnel records provide no performance-related justification for an employee's dismissal or (worse) demonstrate an individual's sustained record of exemplary performance (Bernardin & Cascio, 1988). Systematically lenient

¹ The employment-at-will doctrine stipulates that an employee or employer can terminate a working relationship at the whim of either party.
ratings do not provide accurate information for the effectiveness of their operations and thus potentially jeopardizing their success in today's competitive business environment.

**Error of Strictness**

This error is the opposite of the leniency error. Here raters assigns ‘Poor rating’ regardless of actual performance level of the ratees. Such ‘tight raters’ have very high evaluation standards. They make these errors because of the following reasons (Kaynak et al., 2005):

1. They are afraid that successful employees will replace them in the future.
2. Some raters or managers want to describe themselves as a hard and perfectly based manager.

**Central Tendency Error**

Central tendency error is the most commonly found error. Central tendency bias refers to when a supervisor consistently gives average ratings and avoids the favorable and unfavorable ends of the rating scale. This both penalizes the outstanding performer and covers up the poor performance of underachievers. It also has a detrimental impact on the morale of other employees. Here the rater assigns “average rating” rather than giving extreme poor or good grades irrespective of the actual performance. Such error takes place when most employees are appraised as being near the middle of the performance. This error mostly occurs due to the facts that the rater doesn't know ratee very well, so they prefer this way, which has very low risk to avoid wrong judgment, some raters believe appraisal is a waste of time; as a result they give average rating regardless of employee's actual performance value (Dessler, 2000).

**Recency Error**

This error arises due to the gap between the actual performance and the time of evaluation. This is because raters' memories influence their recall abilities. As the gap increases the raters memory affects the rating system. Ahmad and Spicer’s (2006) research indicates that mental practice has a positive and significant effect on performance and the effectiveness of mental practice was moderated by the types of task, the retention intervals between
practice and performance and the length or duration of the mental practice intervention. Recency errors are most likely to occur when the evaluation is done annually because it becomes very difficult for the rater to remember all performance-relevant information of the employees over a long period. As a result, recent events are weighted more heavily than the whole year performance of the employees. But performance appraisal should range the whole appraisal period. Thus Recency bias occurs when recent events have more influence on the appraisal than less recent events. In such type of error an employee’s entire year of very favorable performance can be negatively impacted by a single unfavorable event occurring just before the performance evaluation is completed. Or on the contrary, a mediocre performance over the course of a year can be overshadowed by one very recent success.

This error can be minimized by keeping ongoing behavioral or critical incident files in which good and poor behaviors and outputs are recorded which will ensure that information for the entire period is incorporated into the appraisal. This will also help to avoid the problem regarding tendency of some employees to work very hard and demonstrate good performance when appraisal time is approaching to get higher rating.

**Contrast Error**

One of the important steps of performance appraisal is to set the standard of performance against which the actual performance is to be compared. Here the rater rate people relative to other people rather than to performance standards. Such error may arise when the raters appraise many employees in a short time. As a result, the grade of a ratee might be influenced by the grade of the ratee who is apprised just before her or him instead of the actual performance standard. So, if everyone else in a group is standing poor performance, a person performing somewhat better may be appraised as a perfect due to contrast error and vice- versa. This error could be minimized if all employees are appraised randomly (Uyargil, 1994).

**Similarity Error**

Another bias is the 'similar to me effect' where the raters have the tendency to make positive evaluations about subordinates who resemble themselves. The appraisers without
considering actual performance of the ratee give better rating to those employees similar to themselves in behavior, personality or background (Pulakos and Wexley, 1983). This nature of the raters influence the ratees to have the tendency to demonstrate that their behaviors, tastes and tendencies match those of the superior and hide those not matching with the superior's, with the intention to please the superior and consequently receive better ratings.

In an effective Performance Appraisal System due consideration must be given to reduce such types of errors, failing which many organizational problems may crop up and the very purpose of appraisal may be defeated. Employees may engage in grievance activity in response to feelings of inequity and may also search for other ways to respond to the perceived inequity that resulted in the filing of a grievance (Ichniowski, 1986).

2.7.3. How to Reduce Appraisal Errors

Raters’ Training

The overall standard of an appraisal system can be improved by providing proper training to the raters. Generally trained appraisers are more effective appraisers than the appraisers who had not undergone such training. Though there is no way to eliminate the appraisal errors completely but to minimize these errors, it is studied and suggested that raters must be aware of the system very well and organizations should provide rater training for their managers (Noonan and Sulsky, 2001; Roch and O'Sullivan, 2003). Hedge and Kavanagh (1988) reported that training focused on minimizing rating errors successfully reduced leniency and halo but also reduced accuracy. Proper training of the raters about what is required of them in rating reduce the tendency of doing errors. Through training this is also important to develop the rater's belief that they can deal with potential conflict from a disgruntled poor performer that could reduce the rater's motivation to inflate their ratings.

Fixing Accountability

Palmer and Feldman (2005) found that accountability increase the appraisal accuracy by reducing magnitude of appraisal errors. Because, when the raters are explicitly told, prior to appraisal task, that they will be held accountable for their appraisal, they will think as
accountability direct them and will provide appraisal consistent with contingencies of accountability requirements (Tetlock and Kim, 1987; Kunda, 1990). Moreover, making managers accountable for the ratings and by evaluating managers based on how well they recognize different levels of performance; may reduce the tendency of the raters to be lenient in appraisals.

**Keeping Record of Performance**

Accurate record keeping is another critical part to ensure accuracy and fairness in the performance evaluation system. Both positive and negative information about subordinate performance should be written down and not trusted to memory. The manager should develop a habit of maintaining records about observations, others’ comments, and his or her periodic review. If ongoing anecdotal notes are not maintained throughout the evaluation period, the appraiser is more apt to experience the recency effect, in which the importance of recent issues outweighs past performance (Smith, 2003). Documentation of subordinates' work behaviors whether supervisors document subordinates' performance e.g. by noting critical incidents of good and poor performance during the appraisal period is typically dependent upon formal appraisal procedures and organizational or unit norms (Bernardin and Walters, 1977; Youtz- Padgett, 1988). Such documentation may constrain supervisors' freedom to inflate performance ratings of subordinates for political reasons. Inflated ratings, especially those that contradict documented performance records, may be difficult to justify if they are challenged by superiors or personnel department representatives (Fried, Tiegs and Bellamy, 1992; Youtz-Padgett, 1988). Because an unsuccessful defense against such a challenge would damage the supervisor's credibility, it is risky for supervisors who document employee work performance to intentionally inflate performance ratings for political reasons (Youtz-Padgett, 1988). In contrast, the absence of documented performance information may make it more difficult for those who challenge a supervisor's ratings to prove that the supervisor deliberately inflated these ratings. It may also make it easier for the supervisor to present to his or her challengers post-hoc evidence which justifies the contested ratings.
Employee Participation in Appraisal Process

Performance standards and criteria for evaluation are to be set in a joint session between ratee and rater which reduces biasness and develops trust on the raters. The existence of an atmosphere of confidence and trust where both the supervisors and subordinates discuss frankly and offer suggestion can improve the acceptability of the appraisal system which is beneficial for the organization as well as for the improvement of the employees. On the contrary decreased employee participation increases appraisal related tension and appraiser- appraisee conflicts. Jordan (1992) stated about importance of participation of employees in an appraisal system.

Reducing Time Gap

To be effective an appraisal system should be performed on a continuous basis. In most of the cases Performance Appraisal System is performed annually. Raters’ memory is quite fallible therefore the time gap between the performance and evaluation should be reduced. Otherwise the evaluation may be affected by the recent performance or some special event instead of whole evaluation period performance.

Performance appraisal plays an important role to motivate the employees at work. But in most of the cases Performance appraisal is influenced by different types of errors as a result the effect of implementation of Performance Appraisal System is not satisfactory. Such appraisal system does not only increase motivation at work, but largely de motivates employees.

2.8. Performance Appraisal Techniques

There are several techniques of performance appraisal, each with some strong points as well as limitations. Performance appraisal methods can widely be classified into traditional method which lay emphasis on the rating of the individual’s personality traits. Traits identify the physical or psychological characteristics of a person. The trait appraisal is based on personality traits of initiative, aggressiveness, reliability, creativity, integrity, personality etc. A lot of subjectivity is involved in identifying and evaluating personality traits. On the other hand, newer or modern methods which are also termed as behavioral
appraisals methods put more emphasis on the work done by the employees rather than on personality traits. Behavioral appraisals measure what individuals do at work. Performance criteria are fixed up and the performance of an employee is compared with those criteria to determine whether or not employees have performed as required by the organization. This type of appraisal offers straightforward, objective results in a performance evaluation. The distinguishing components of such instruments is to analyze the performance of an employee indicating precisely what is being done by him to evidence recognition, discipline, transfer, promotion, demotion, or termination.

Some of the Traditional Methods of Performance Appraisal which is based on subjective criteria are as follows:

**Ranking methods**

It is the oldest and simplest method of performance appraisal. Some of the important forms of ranking for performance appraisal are given below (Oberg, 1972; and Monga, 1983).

(a) Alteration ranking method: The individual with the best performance is chosen as the ideal employee. Other employees are then ranked against this employee in descending order of comparative performance on a scale of best to worst performance. The alteration ranking method usually involves rating by more than one assessor. The ranks assigned by each assessor are then averaged and a relative ranking of each member in the group is determined. While this is a simple method, it is impractical for large groups. In addition, there may be wide variations in ability between ranks for different positions.

(b) Paired comparison: The paired comparison method systematizes ranking and enables better comparison among individuals to be rated. Every individual in the group is compared with all others in the group. The evaluations received by each person in the group are counted and turned into percentage scores. The scores provide a fair idea as to how each individual in the group is judged by the assessor.

(c) Person-to-person rating: In the person-to-person rating scales, the names of the actual individuals known to all the assessors are used as a series of standards. These
standards may be defined as lowest, low, middle, high and highest performers. Individual employees in the group are then compared with the individuals used as the standards, and rated for a standard where they match the best. The advantage of this rating scale is that the standards are concrete and are in terms of real individuals. The disadvantage is that the standards set by different assessors may not be consistent. Each assessor constructs their own person-to-person scale which makes comparison of different ratings difficult.

**Man –to Man Comparison Method**

During the First World War this technique was first used by the USA army. In this method the personnel are compared with a key man in respect of one factor at a time instead of comparing a whole man to a whole man. Hence this method is also called factor comparison method.

**Essay Appraisal Method**

The assessor writes a brief essay which provides an assessment of the strengths, weaknesses and potential of the employees. In order to do so objectively, it is necessary that the assessor must have knowledge about the performance of the employees and should have interacted with them. Since the length and contents of the essay vary between assessors, it becomes difficult to compare the ratings maintained under this method. This system of appraisal depends on the raters’ literary skill and is easily affected by the rater’s bias.

**Grading Method**

Under this system, the raters evaluate certain selected features like analytical ability, co-cooperativeness, dependability, job knowledge, leadership etc. An employee is allotted a grade which may be: A- outstanding, B- very good, C- good or average, D- fair, E- poor.

**Graphic Rating Scale**

This is the most commonly used method of appraisal. Assessment could also be trait centred and cover observable traits, such as reliability, adaptability, communication skills,
etc. Graphic rating scale has application in a wide variety of job responsibilities and is more consistent and reliable in comparison with essay appraisal. The utility of this technique can be enhanced by using it in conjunction with the essay appraisal technique.

**Field Review Method**

Trait centred performance appraisal inadvertently introduce bias in the ratings by the raters. To overcome this rater related bias, essay and graphic rating techniques can be combined in a systematic review process. In the field review method, 'a member of the HRM staff meets a small group of assessors from the supervisory units to discuss each rating, systematically identifying areas of inter-assessor disagreement.' It can then be a mechanism to help each assessor to perceive the standards uniformly and thus match the other assessors. Although field review assessment is considered valid and reliable, it is very time consuming.

**Forced-Choice Rating Method**

Unlike the field review method, the forced-choice rating method does not involve discussion with supervisors. Although this technique has several variations, the most common method is to force the assessor to choose the best and worst fit statements from a group of statements. These statements are weighted or scored in advance to assess the employee. The scores or weights assigned to the individual statements are not revealed to the assessor so that she or he cannot favour any individual. In this way, the assessors’ bias is largely eliminated and comparable standards of performance evolved for an objective. However, this technique is of little value wherever performance appraisal interviews are conducted.

**Critical Incident Appraisal Method**

In this method, a rater attempts to measure worker’s performance in terms of critical incidents, giving details of both positive and negative behavior of the employee. These are then discussed with the employee when feedback is provided to them. The discussion focuses on actual behavior rather than on traits. While this technique is well suited for performance review interviews, it has the drawback that the supervisor has to note down
the critical incidents as and when they occur, negative incidents are generally more noticeable than the positive ones. It makes little sense to wait six months or a year to discuss a misdeed, a mistake or good display of initiative.

**Checklist Method**

A checklist is a pre-scaled descriptions of behavior furnished to the assessors to evaluate the personnel being rated. Under this method, the rater does not evaluate employee performance; he supplies reports about it and final report is done by the personnel department. The scale values of the behavior items are unknown to the assessor, who has to check as many items as she or he believes describe the worker being assessed. A final rating is obtained by averaging the scale values of the items that have been marked. The method suffers from bias on the part of the rater and different checklist must be prepared for different classes of jobs.

Some of the Modern Methods of Appraisal which concentrates on objective criteria are as follows:

**Work Standard Approach**

In this technique, management establishes the goals openly and sets targets against realistic output standards. These standards are incorporated into the organizational Performance Appraisal System. Thus each employee has a clear understanding of their duties and knows well what is expected of them. Performance appraisal and interview comments are related to these duties. This makes the appraisal process objective and more accurate. However, it is difficult to compare individual ratings because standards for work may differ from job to job and from employee to employee.

**Behaviorally Anchored Rating Scales (BARS)**

This is a relatively new technique. It consists of sets of behavioral statements describing good or bad performance with respect to important qualities. These qualities may refer to inter-personal relationships, planning and organizing abilities, adaptability and reliability. These statements are developed from critical incidents collected both from the assessor and the subject.
Assessment Centre Method

Under this method many evaluators join together to judge the employee performance in several situations. This technique is used to predict future performance of employees were they to be promoted, determine individual training and development needs of employees, assist in implementing affirmative action goals etc. The individual whose potential is to be assessed has to work on individual as well as group assignments similar to those they would be required to handle were they promoted. The judgment of observers is pooled and paired comparison or alteration ranking is sometimes used to arrive at a final assessment. The final assessment helps in making an order-of-merit ranking for each employee. It also involves subjective judgment by observers.

Management by Objectives (MBO)

The objective is to achieve the goal. The employees are asked to set or help in setting their own performance goals. Subordinate becomes involved in planning their own careers. This avoids the feeling among employees that they are being judged by unfairly high standards. Presently, this method is widely used. Even though the employees are consulted, in many cases management ends up by imposing its standards and objectives. This method emphasizes the value of the present and the future instead of the past. MBO helps to increase motivation of the employees, provides more objective appraisal criteria and identifies problems better and early.

The design of an appraisal system depends on intuition, self-analysis, personality traits, behavioral methods and result-based techniques. Different approaches and techniques could be blended, depending on the goals of performance appraisal in the organization and the type of review. For example, management by objectives, goal-setting and work standard methods are effective for objective coaching, counselling and motivational purposes. Critical incident appraisal is best suited when supervisor's personal assessment and criticism are essential. A carefully developed and validated forced-choice rating can provide valuable analysis of the individual when considering possible promotion to supervisory positions. Combined graphic and essay form is simple, effective in identifying training and development needs, and facilitates other management decisions. Performance
Appraisal improves the morale and productivity of the employees but hardly, it served the purposes of most of the organizations because they are not properly designed and sufficient time is also not spent for the designing.

Earlier the performance appraisal in Indian Railways like other public sector organizations was performed through Annual Confidential Report where feedbacks were not shared with the employees unless below average grade was assigned to an employee. But there has been a change in thinking. Now Performance Appraisal System has been termed as Annual Performance Assessment Report where all the employees will be shared full feedback. The performance appraisal followed by Indian Railways is grading method predominantly based on subjective, criteria like integrity, conduct, tact and temper etc. discuss in detail chapter 4.

It may be inferred that this chapter has given an overview of Performance Appraisal as may be applied across all organization- public or private sector, profit or nonprofit sector. Each sector may have peculiar characteristics which throw different focal points of Performance Appraisal-namely, differences in manufacturing and service sector enterprises. These have been dealt with in detail in the next chapter. Since the study is based on Performance Appraisal of Indian Railways, we have further developed an understanding of Performance Appraisal in Public Utility. Given to this theoretical understanding of Performance Management System, we proceed to delve in depth into unique characteristics of Performance Appraisal in public sectors.

We have learnt from this chapter that performance appraisal fulfils various objectives, meets the needs of different stakeholders of an organization, is subject to errors and may follow different methods. In the next chapter we discuss these in the light of public sector. Specific character of Indian Railway being a public service provider of the state sector is discussed in chapter 4.